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In this issue

Economic indicators pick-up but longer-term uncertainty remains............................1

Latest news......................1

Economic indicators 6

Estimating the value of service exports from London: 2011 to 2014.................10

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Economic indicators pick-up but longer-term uncertainty remains

By **Emma Christie**, Economist, **Gordon Douglass**, Supervisory Economist, and **Brian Smith**, Economist

Based on UK data relating to the period since the June referendum, the Office for National Statistics (ONS) has concluded that so far there has been 'no major effect' from the Brexit vote on the UK economy. Joe Grice, the ONS's Chief Economist, observed that "as the available information grows, the referendum result appears, so far, not to have had a major effect on the UK economy. So it hasn't fallen at the first fence but longer-term effects remain to be seen".

Less positively, forward looking surveys generally show a more mixed economic picture than data to date has illustrated. Thus the Q3 2016 Agents' Summary of Business Conditions, published this month by the Bank of England, reported that during the third quarter "the annual rate of activity growth had slowed overall as uncertainty rose following the EU referendum, although it remained positive. However, business sentiment improved slightly in August following a marked dip in the immediate aftermath of the referendum". And that "companies' investment and employment intentions had fallen, and were consistent with broadly flat levels

Latest news...

London in comparison with other global cities

This note compares London's economic structure with other global cities, particularly looking at its economic output, employment and productivity.

London's economy has grown at a faster rate than other Western cities like New York and Paris in real terms between 2006 and 2014. However, emerging global cities such as Shanghai and Singapore have seen rates of growth that were twice as fast.

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of capital spending and employment over the coming six to twelve months". However, "consumer spending growth and confidence had been more resilient. Although housing market activity had fallen markedly in London and in parts of the surrounding area, it had held up relatively well in other parts of the United Kingdom".

Focussing specifically on business confidence, the Manpower Employment Outlook showed that six out of nine sectors are less optimistic about adding jobs in the wake of the vote; a survey by the Federation of Small Business (FSB) in July and August found the second biggest drop in confidence in their index's history; and, survey results from the Confederation of British Industry (CBI) saw optimism fall in financial services for a third consecutive quarter. Still, Purchasing Managers Index (PMI) data has rebounded from that seen in July which indicated contractions across most sectors of the economy with most sectors PMIs standing above 50 (indicating an expansion on this measure) in August.

Most UK economic forecasts remain subdued for 2017

Despite many economic indicators appearing better than expected, the latest summary of independent forecasters produced by the Treasury showed that GDP growth expectations for the UK in 2017 remain low at, on average, 0.7 per cent. However, forecasts published in September were slightly more optimistic giving an average UK forecast growth rate for 2017 of 0.9 per cent. Many individual forecasters have, therefore, been revising their growth predictions upwards; Credit Suisse and Morgan Stanley have both scrapped their predictions of a recession and are now forecasting small levels of growth in 2017 for instance. The OECD, in their Interim Economic Outlook published on 21 September, stated that "a strong response from the Bank of England has helped stabilise markets, uncertainty remains extremely high and risks are clearly on the downside." That said, the OECD forecast that the UK economy will grow by 1.8 per cent in 2016 (an upward revision compared to its June forecast) and 1.0 per cent in 2017 (down from 2.0 per cent in its June forecast).

August Consumer Price Index (CPI) inflation remained lower than predicted at 0.6 per cent, and well below the Bank's 2.0 per cent central symmetrical target. The ONS attributed this to rising food and air fare prices, offset by cheaper prices for hotel rooms. The continued undershooting of inflation arguably allows for the Bank of England's Monetary Policy Committee (MPC) to further reduce interest rates. In the minutes of their latest meeting the MPC observed that if the economy continued to follow the path set out in August's Inflation Report, "a majority of members expected to support a further cut in Bank Rate to its effective lower bound at one of the MPC's forthcoming meetings during the course of the year. The MPC currently judged this bound to be close to, but a little above, zero".

Speaking about last month's decision to cut rates, Mark Carney, Bank of England Governor, told MPs in September that the historic cut had been necessary to "help the economy to adjust", and further described the actions as "timely, comprehensive, and concrete". However, Andrew Sentence, a former member of the MPC, said that the package had dragged bond yields down further and worsened the pension's crisis, and warned the Bank to heed the lessons of Japan before continuing with a programme of long-term low rates of interest.

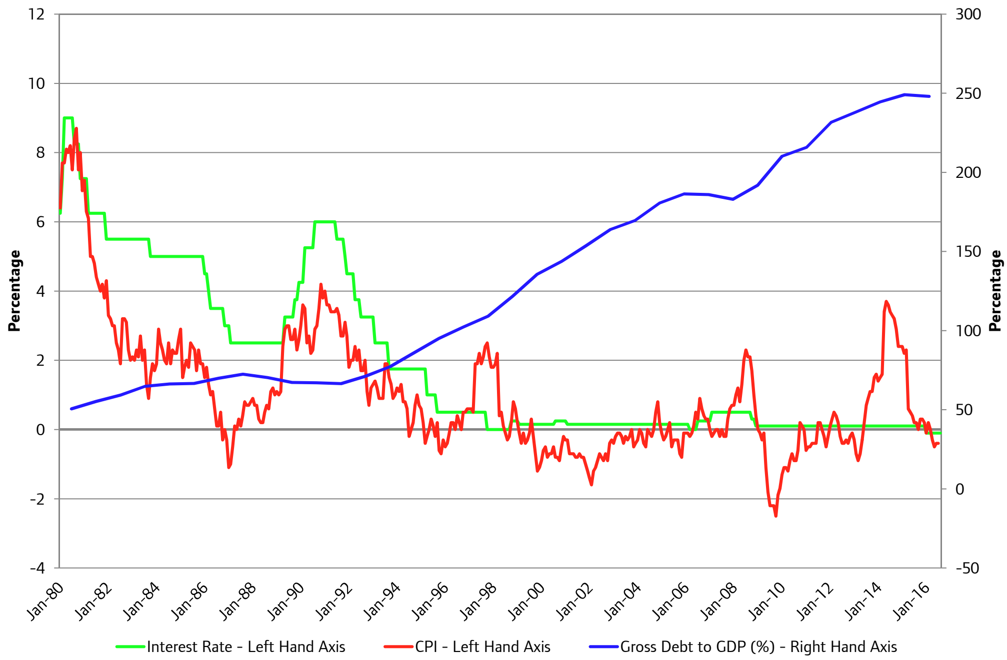
Japan's government makes another historic move

Such a long period of low interest rates in the UK has had some commentators looking at other countries that have faced a similar situation with an obvious example being Japan. In Q2 2016, GDP growth in Japan measured only a 0.2 per cent increase on the previous quarter. This comes despite four years of economic stimulus and a massive push by Shinzo Abe, Japan's Prime Minister, to get companies investing at home and raising wages to boost demand.

Japan has suffered two decades of economic stagnation, largely attributed to its aging population and repeated deflation (CPI inflation measured -0.4 per cent in July 2016, see Figure 1), which has put a substantial strain on public debt. Japan now has one of the largest levels of public debt in the world, at 246 per cent of GDP.

Figure 1: Japanese CPI, debt and interest rates

Source: World Economic Outlook, IMF (debt); Macrobond (interest rates); Statistics Japan (CPI)



As Figure 1 shows, Japan has been embarking on a programme of negative interest rates as of January 2016 (as well as undertaking significant quantitative easing), but with little to no effect on the rate of inflation, or indeed, economic growth as yet. As of 21 September 2016, the Bank of Japan (BOJ) has shifted policy to target interest rates on government bonds to achieve its desired rate of interest, promising markets it would continue to buy large amounts of bonds, as well as other riskier assets. The move is being watched closely by global financial banks and institutions as investors fear Japan has reached the brink of what monetary policy can achieve.

The world economic environment shows a mixed picture despite continued growth

Meanwhile, growth among Britain's trading partners has continued although the strength of growth varies depending on the country/area considered. Within the Eurozone business growth continues although with relatively weak recent results from the composite PMI. Still, most forecasters predict that the rest of 2016 will see a continuation of the economic recovery. However, Eurozone inflation remained weak in August, unchanged from 0.2 per cent in July, and failing to meet analysts' forecasts for a slight rise. This has prompted speculation that the European Central Bank (ECB) will take further action to stimulate the Eurozone economy. While shares in Deutsche Bank – Germany's largest lender – have slumped to their lowest level since the 1980s as fears were raised that the bank could not cover a requested $14 billion settlement from the US Department of Justice for an investigation into mortgage-backed securities.

Still the US economy appears to be continuing to grow at a steady pace with consumer spending rebounding sharply in Q2 (4.4 per cent, from 1.6 per cent in Q1) and consumer confidence at its highest in nine years. Expectations for the rest of 2016 and beyond are strong, with steady growth expected as the US outpaces many other western economies. Although the Federal Reserve (the Fed) left interest rates unchanged this month, they have sent signals that a further move is likely before the end of 2016. With the minutes of their September meeting observing that "the case for an increase in the federal funds rate has strengthened".

Elsewhere growth is less robust with China's economic slowdown appearing to be continuing, with industrial output and retail sales both failing to meet forecasters' targets in July, although picking up a bit in August. Kenneth Rogoff – former chief economist at the IMF – said that China's situation was worrying, and the greatest threat to the global economy. He further added that "we've taken it for granted that whatever Europe's doing, Japan's doing - at least China's moving along and there isn't really a substitute for China".

London's economic outlook remains generally optimistic although this is against conflicting economic signals

Compared to the picture painted by July's surveys the economic surveys for London for August were generally more upbeat. Thus the consumer confidence index has rallied, moving from a negative outlook to a more neutral position. The index, which is produced by GfK, thus shows that Londoner's outlook rose from -8 in July, to zero in August, against a backdrop of continued negative sentiment in the rest of the UK (-7 in August, from -12 in July). PMI data also suggests an improvement in London's economic outlook, with firms reporting an increased output of goods and services in August 2016, with PMI rising from 44.4 in July, to 52.5 in August. Likewise, new orders in London are rising, with a recorded PMI of 53.5 in August, up from 44.7 in July. Finally, businesses are reporting higher employment for August, with a PMI of 52.0 in August, compared to 48.0 in July. An index of above 50 represents growth on the previous month. In terms of economic data published since the referendum, this still shows a generally expanding picture with for instance claimant count unemployment down slightly on the month in August in London.

Nevertheless many of London's largest firms, and indeed, employers, are reported to have already started to make contingency plans for 'Brexit'. Lloyds of London, for example, has announced that it remains committed to European markets following the Brexit vote, and is working to protect its access to the single market, as well as the passporting rights it currently operates under. Research by KPMG suggests that more than three-quarters of CEOs are considering moving their headquarters or some of their operations away from London, despite 69 per cent of them predicting continued growth. Despite these concerns, London has retained its top position in Z/Yen's 20th Global Financial Centres Index, ahead of New York, although this was mainly based on data collected prior to the referendum result. However Z/Yen observes that "looking ahead to GFCI 21, assessments given to London in July and August are significantly down from previous levels. GFCI 21 may show some significant changes".

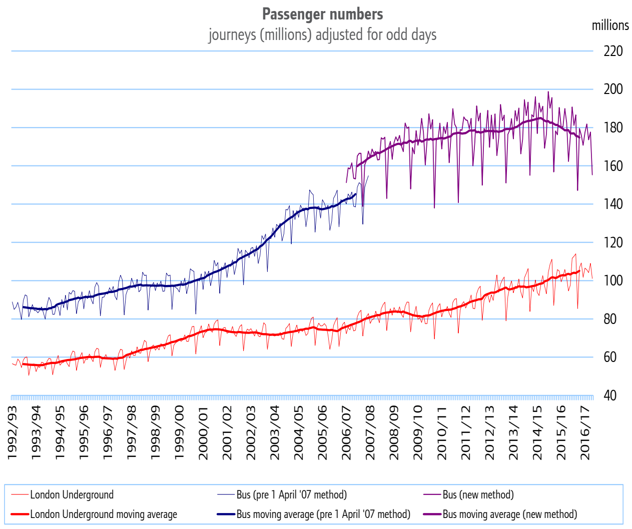
Although economic uncertainty is likely to persist for some time the data published in September has painted a somewhat stronger picture for the UK and London's economy than that produced by various surveys directly after the vote.

Economic indicators

Average number of passenger journeys unchanged

- The most recent 28-day period covered 24 July – 20 August 2016. Adjusted for odd days, London's Underground and buses had 256.4 million passenger journeys; 155.3 million by bus and 101.1 million by Underground.
- The 12-month moving average of passengers was unchanged on the previous period at 279.9 million. The moving average for buses was 174.8 million. The moving average for the Underground was 105.1 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: September 2016
Next release: October 2016

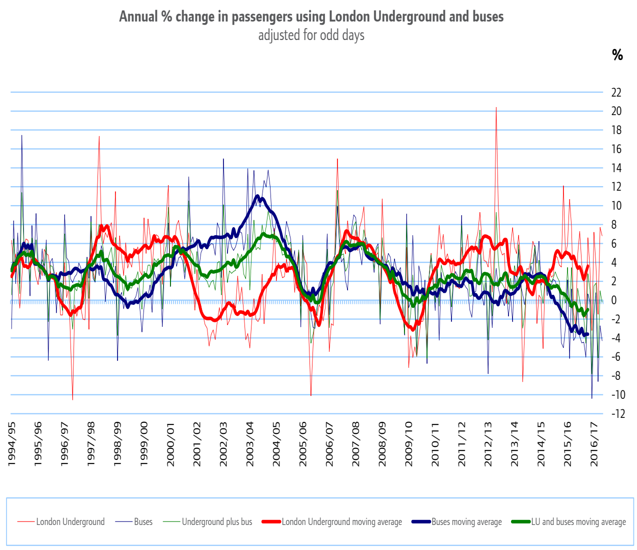


Source: Transport for London

Average annual growth of passengers remains negative

- The moving average annual rate of growth in passenger journeys increased to -1.0 per cent from -1.3 per cent in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers was unchanged at -3.6 per cent from the same rate in the previous period.
- The moving average annual rate of growth in Underground passenger journeys increased to 3.6 per cent from 2.9 per cent in the previous period.

Latest release: September 2016
Next release: October 2016

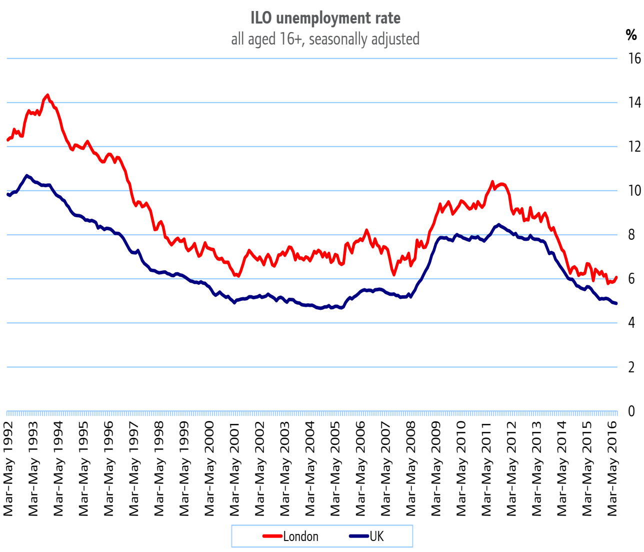


Source: Transport for London

ILO unemployment increases in London

- The ILO unemployment rate in London increased to 6.1 per cent in the quarter to July 2016, compared to 5.9 per cent in the quarter to April. In the UK, the unemployment rate was 4.9 per cent in the quarter to July 2016, down from 5.0 per cent in the previous quarter.
- There were 289,000 seasonally adjusted unemployed in London in the quarter to July 2016, an increase of 9,000 on the previous quarter. There were 1,632,000 seasonally adjusted unemployed in the UK in the quarter to July 2016, a decrease of 39,000 on the previous quarter.
- From LET Issue 154 (June 2015), GLA Economics now reports on the ILO unemployment rate.

Latest release: September 2016
Next release: October 2016

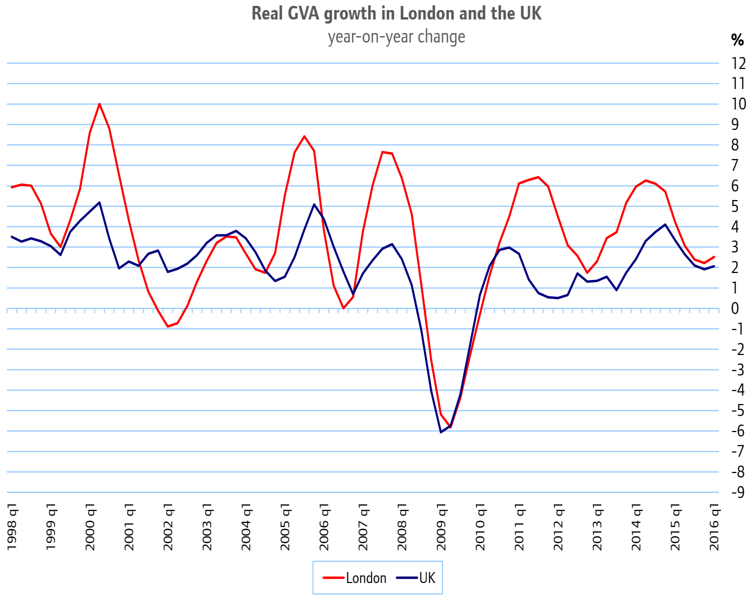


Source: Labour Force Survey - ONS

Annual output growth increases in London in Q1 2016

- London's annual growth in output increased to 2.5 per cent in Q1 2016 from a downwardly revised 2.2 per cent in Q4 2015.
- Annual output growth in the UK increased to 2.1 per cent in Q1 2016 from 1.9 per cent in Q4 2015. In Q1 2016, London's annual output growth was higher than the UK as a whole.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Latest release: July 2016
Next release: October 2016

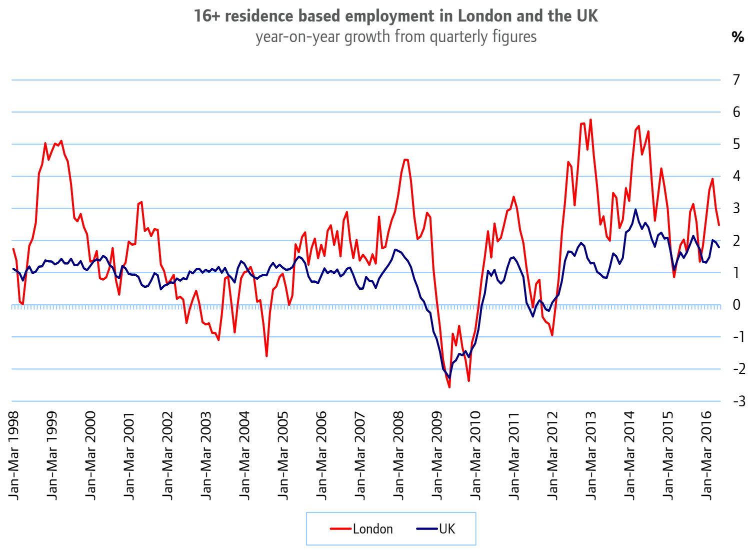


Source: Experian Economics

Annual employment growth slows in London

- The annual growth rate of London's residents in employment slowed to 2.5 per cent in the quarter to July 2016, compared to 3.6 per cent in the quarter to April 2016. For the UK as a whole, the annual growth in employment was 1.8 per cent in the quarter to July 2016, compared to 1.5 per cent in the previous quarter.
- There were 4.48 million residents in employment in London in the quarter to July 2016, a decrease of 1,000 on the previous quarter. There were 31.77 million people in employment in the UK in the quarter to July 2016, an increase of 174,000 on the previous quarter.
- From LET Issue 165 (May 2016), GLA Economics now reports ONS labour market data.

Latest release: September 2016
Next release: October 2016

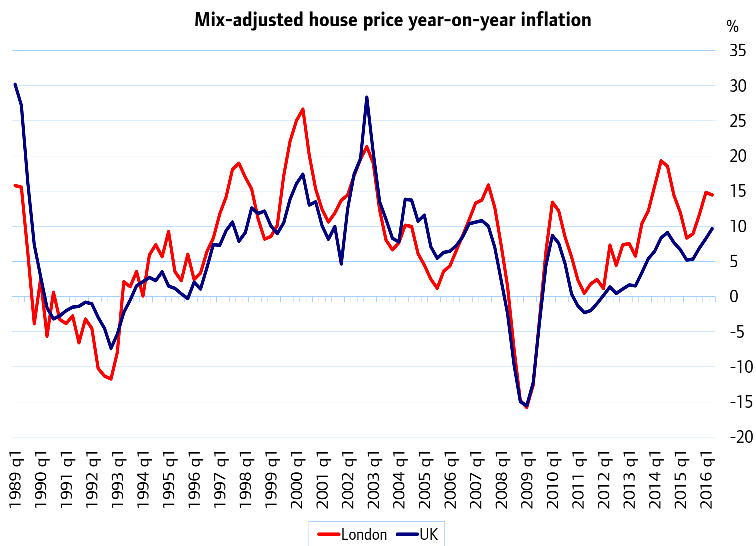


Source: Labour Force Survey - ONS

Annual house price inflation in London slows in Q2 2016

- House prices, as measured by the Land Registry, were higher in Q2 2016 than in Q1 2016 for London, as well as for the UK as a whole.
- Annual house price inflation in London was 14.5 per cent in Q2 2016, down from 14.8 per cent in Q1 2016.
- Annual house price inflation in the UK was 9.7 per cent in Q2 2016, up from 8.2 per cent in Q1 2016.

Latest release: September 2016
Next release: December 2016

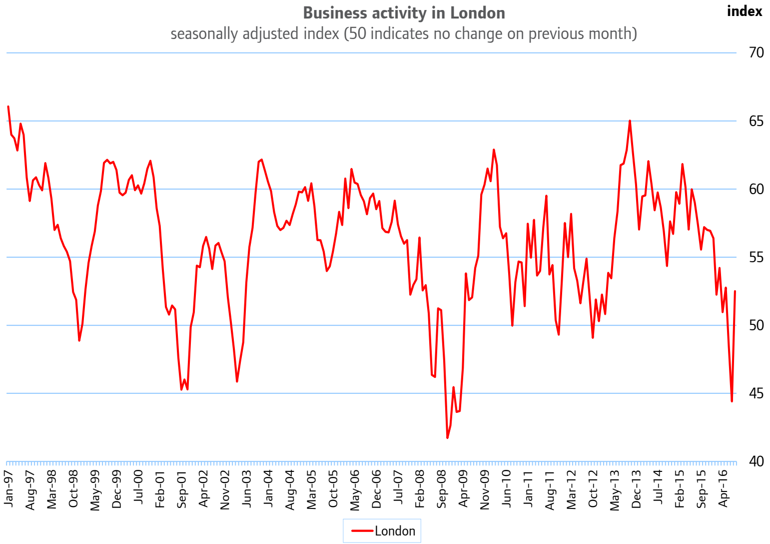


Source: Land Registry

London's business activity increases

- Firms in London increased their output of goods and services in August 2016.
- The Purchasing Managers' Index (PMI) of business activity recorded 52.5 in August 2016, up from 44.4 in July 2016.
- An index above 50 indicates an increase in business activity from the previous month.

Latest release: September 2016
Next release: October 2016

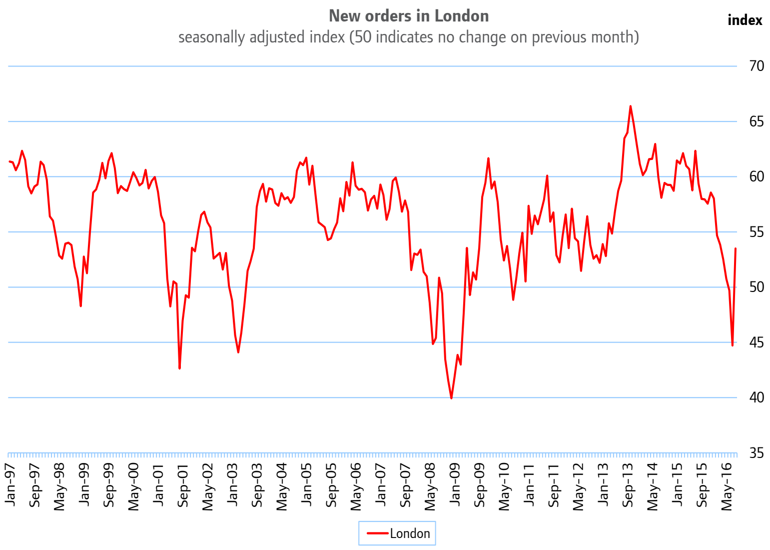


Source: Markit Economics

New orders in London rising

- August 2016 saw an increase in new orders for London firms.
- The PMI for new orders recorded 53.5 in August 2016 compared to 44.7 in July 2016.
- An index above 50 indicates an increase in new orders from the previous month.

Latest release: September 2016
Next release: October 2016

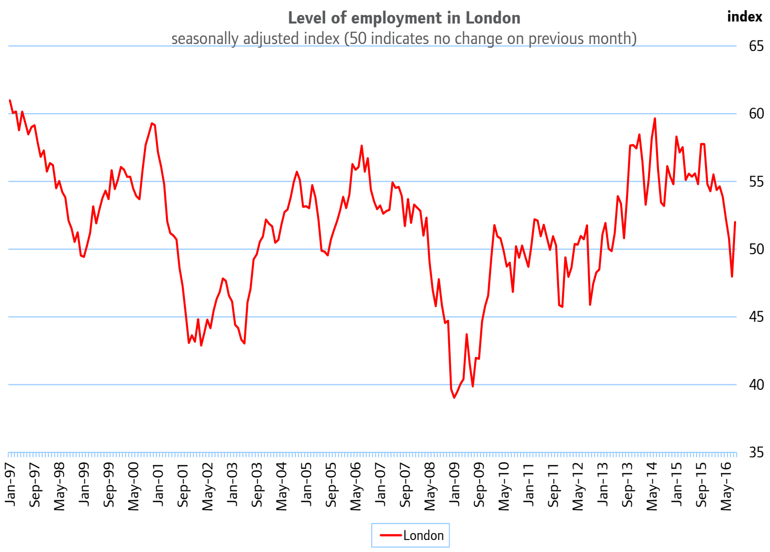


Source: Markit Economics

Businesses report higher employment in August

- The PMI shows that the level of employment in London firms increased in August 2016.
- The PMI for the level of employment was 52.0 in August 2016, up from 48.0 in July 2016.
- An index above 50 indicates an increase in the level of employment from the previous month.

Latest release: September 2016
Next release: October 2016

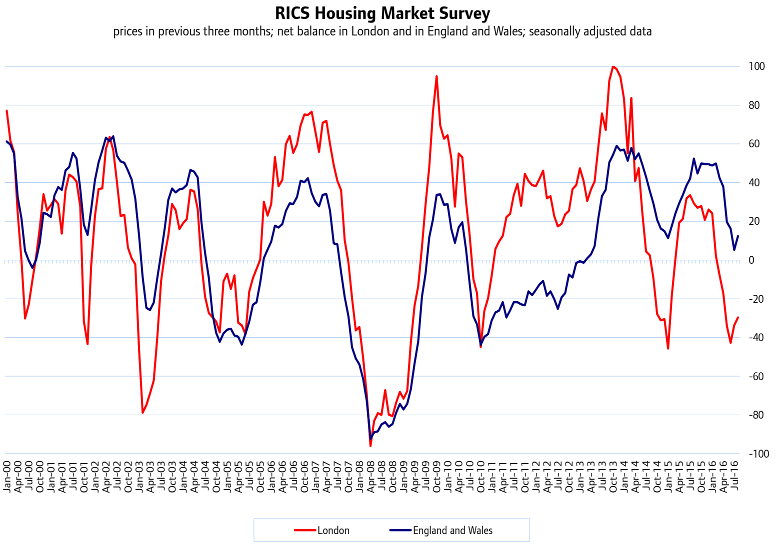


Source: Markit Economics

Surveyors report that house prices are decreasing in London

- The RICS Residential Market Survey showed a net balance of -30 for London house prices over the three months to August 2016.
- Surveyors reported a positive net house price balance of 12 for England and Wales over the three months to August 2016.
- London's net house price balance is lower than that of England and Wales.

Latest release: September 2016
Next release: October 2016

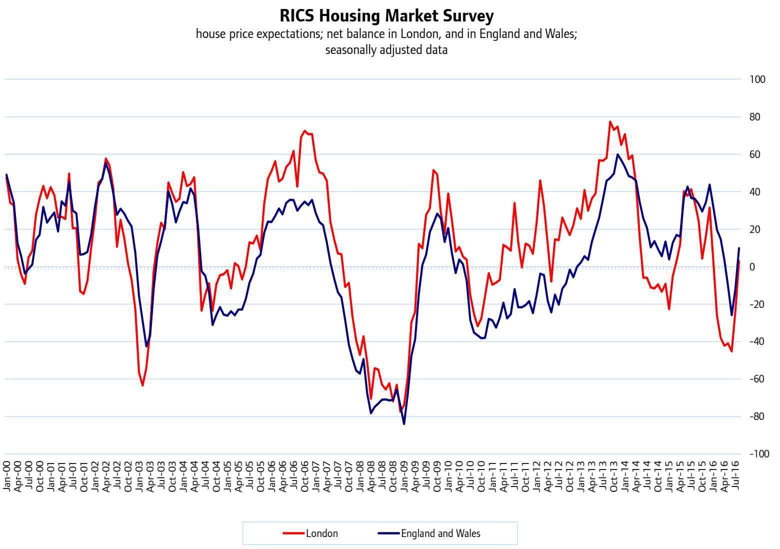


Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London as well as in England and Wales

- The RICS Residential Market Survey shows that surveyors expect house prices to rise over the next three months in London, as well as in England and Wales (but to a greater extent).
- The net house price expectations balance in London was 3 in August 2016.
- For England and Wales, the net house price expectations balance was 10 in August 2016.

Latest release: September 2016
Next release: October 2016

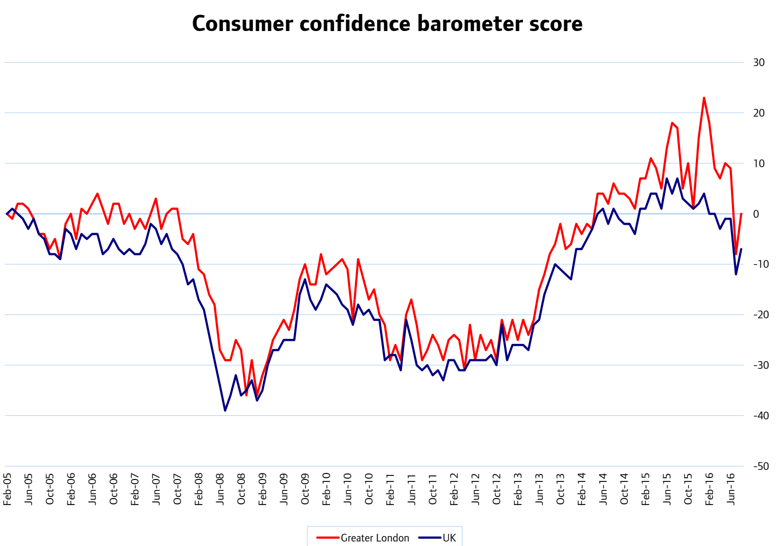


Source: Royal Institution of Chartered Surveyors

Consumer confidence reaches zero in London but remains negative in the UK

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year, as well as their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London, the consumer confidence score stood at 0 in August 2016, up from -8 in July 2016.
- For the UK, the consumer confidence score rose to -7 in August 2016, up from -12 in July 2016.

Latest release: August 2016
Next release: September 2016



Source: GfK NOP on behalf of the European Commission

Estimating the value of service exports from London: 2011 to 2014

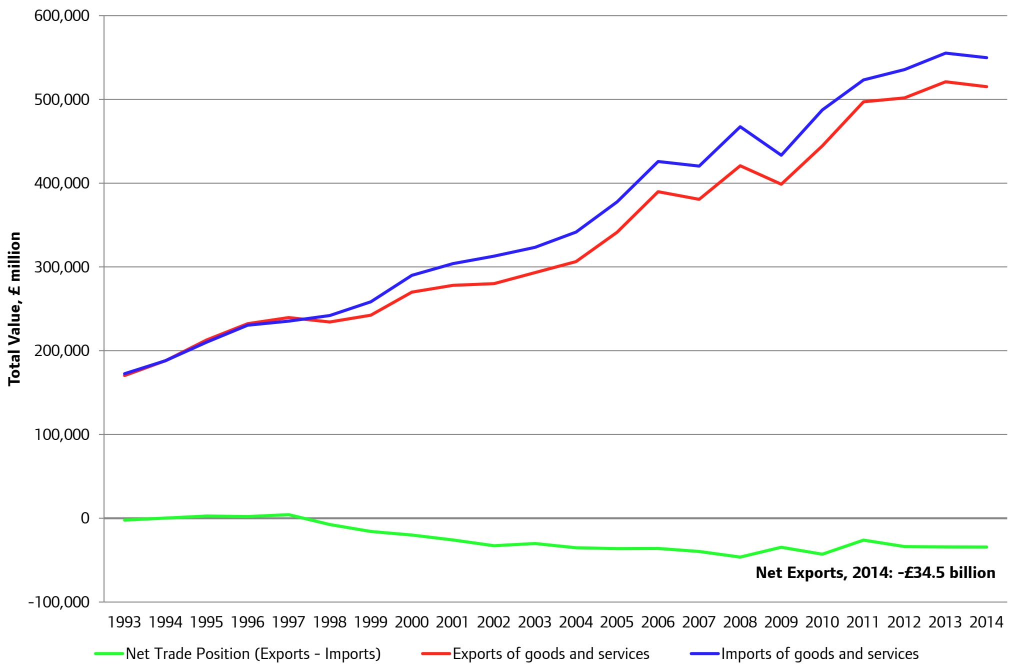
By **Emma Christie,** Economist

While there are extensive data on the UK's trading position (ie, levels of imports and exports) directly available from the Pink Book[1] such data has not historically been available for London. This supplement highlights some recent work by the Office for National Statistics (ONS)[2] to develop estimates of service exports from each country and region of the UK, which allows for a better understanding of London's export position.

Figure A1 shows that, for the UK as a whole, both exports and imports have grown over time. However, Figure A1 also shows that imports have tended to exceed exports for the vast majority of this period; the UK has run a trade deficit for most of the past 20 years. In 2014, the total value of both imports and exports were in excess of £500 billion, with a trade deficit of £34.5 billion.

Figure A1: The UK's international trading position, 1993-2014

Source: GLA Economics calculations; drawn from Pink Book, ONS (values in current prices)



In contrast to the position at the national level, previous analysis undertaken by the GLA estimated that London exported more than it imported, ie London ran a trade surplus. The London Business Survey estimated that businesses exported £28 billion more than they imported in the year to mid-2014[3]. However, this result and those from the ONS Pink Book are not consistent with one another, so some caution is required with this finding.

1 Office for National Statistics, 30 October 2015, 'United Kingdom Balance of Payments - The Pink Book: 2015'.

2 Office for National Statistics, July 2016, 'Estimating the value of service exports abroad from different parts of the UK: 2011 to 2014'.

3 See: GLA Economics, November 2014, 'London Business Survey 2014: Exports'.

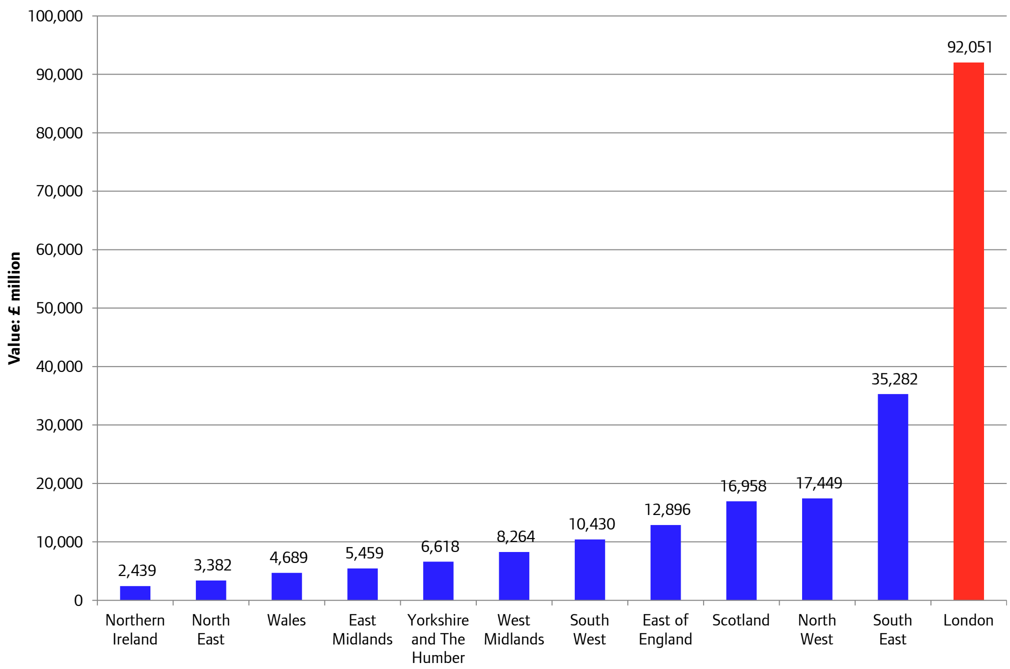
While data on London's exports of goods are readily available from the HM Revenue and Customs 'Regional Trade Statistics' publication, a consistent series of estimates for exports of services has not previously been available. GLA Economics has previously undertaken in-house estimates of the value of service exports (published in GLA Economics Working Paper 69[4]). However, this year the ONS produced experimental statistics of service exports for all regions and countries of the UK, drawing upon information from the Pink Book as well as data from the International Trade in Services survey, the Inter-Departmental Business Register, and the Bank of England. These new data are available from 2011 to 2014.

London's service exports

Data from the ONS show the importance of the capital to UK service exports. Figure A2 shows the level of service exports by region in 2014, with London's service exports totalling £92 billion. ONS' experimental estimates suggest this level of service exports has remained relatively constant since 2011. As a result, London's total share of UK service exports is estimated to have fallen by just under five percentage points between 2011 and 2014 (standing at 42.6 per cent in 2014).

Figure A2: Regional service exports, 2014

Source: Office for National Statistics



Data from the ONS also provide an indication of the industrial sectors – or more accurately functional categories – from which London's exports of services are drawn; these data are shown in Table A1. While the time series only runs from 2011–2014, it does provide an indication of the importance of some categories to London's service exports. The Financial services; Real estate; Professional, scientific and technical; and Information and communications categories accounted for almost 60 per cent of London's total service exports in 2014 (as shown in Figure A3).

4 See: Keijonen, M., August 2015, 'Working Paper 69: An analysis of London's exports'. GLA Economics.

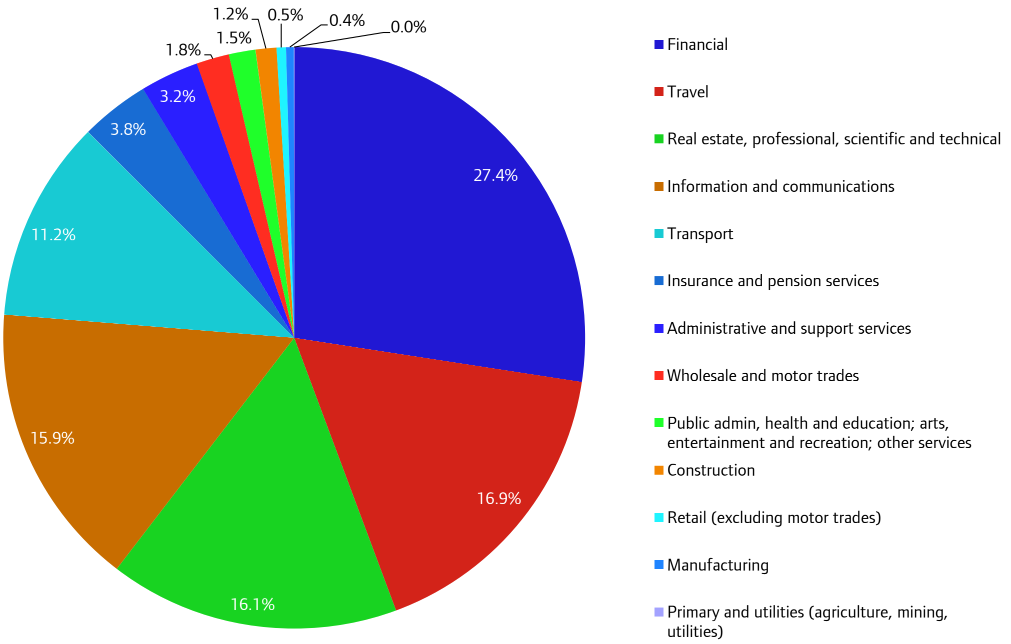
Table A1: London's service exports by functional category, 2011–2014, £ million

Source: Office for National Statistics (values in current prices)

Sector	2011	2012	2013	**2014**
Primary and utilities (agriculture, mining, utilities)	36	66	27	16
Manufacturing	739	784	802	398
Transport	8,723	9,143	9,114	10,320
Travel	11,819	13,018	14,655	15,542
Construction	464	726	819	1,066
Wholesale and motor trades	7,798	3,802	3,132	1,681
Retail (excluding motor trades)	401	394	476	480
Information and communications	11,118	11,792	12,643	14,595
Real estate, professional, scientific and technical	12,950	15,300	15,026	14,834
Insurance and pension services	2,489	3,161	3,076	3,526
Financial	30,739	27,511	28,329	25,247
Administrative and support services	1,959	3,205	3,922	2,991
Public admin, health and education; arts, entertainment and recreation; other services	928	931	1,161	1,355
Total	**90,162**	**89,833**	**93,181**	**92,051**

Figure A3: Proportion of London's total service exports, by functional category, 2014

Source: Office for National Statistics



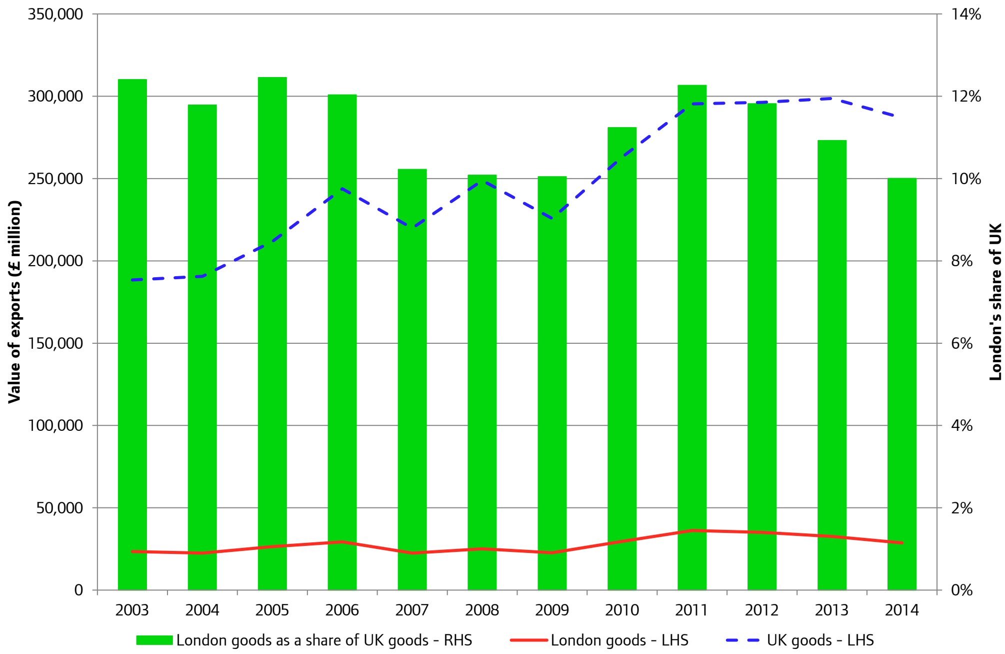
London's trade in goods

The experimental statistics on London's service exports can be combined with existing statistics on London's trade in goods to estimate London's total exports.

In 2014, London exported around £28.7 billion worth of goods, a 23 per cent increase on 2003. UK goods exports exceeded this growth, growing by almost 53 per cent over the same period. As a result, London's share of total UK goods exports fell slightly between 2003 and 2014 (see Figure A4).

Figure A4: London's goods exports as a share of UK (2003–2014)

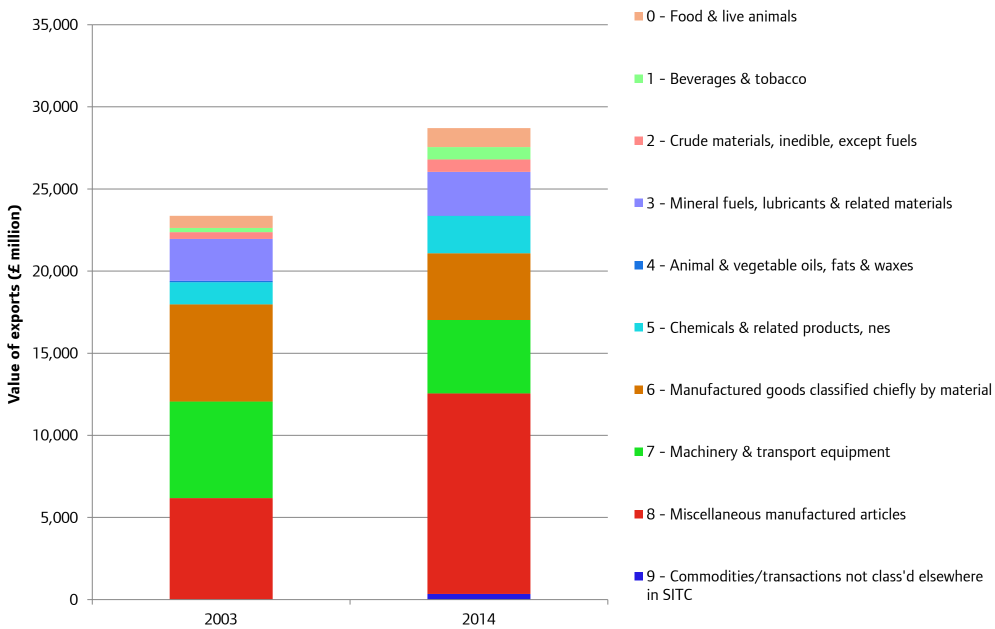
Source: Regional Trade Statistics, HMRC (values in current prices)



In 2014, London's strongest goods export sector, valued at £12.2 billion, was 'Miscellaneous manufactured articles', which includes goods such as: clothing; toys and games; and works of art and antiques (see Figure A5); exports in this category increased by 98 per cent between 2003 and 2014. In contrast, goods exports of 'Machinery and transport equipment' fell by 24 per cent, from £5.9 billion in 2003 to £4.5 billion in 2014.

Figure A5: London's goods exports by sector (2003-2014)

Source: Regional Trade Statistics, HMRC (values in current prices)



Overall therefore, taking the ONS's experimental estimates for service exports together with the existing estimates for goods suggests London's total exports stood at around £120.8 billion in 2014. Moreover, the statistics show the importance of service exports to London's economy with service exports representing over three quarters of London's total exports and more than three times the value of London's goods exports in 2014.

Additional information

Data sources

Tube and bus ridership	Transport for London on 020 7222 5600 or email: enquire@tfl.gov.uk
GVA growth	Experian Economics on 020 7746 8260
Unemployment rates	www.statistics.gov.uk

Glossary

Civilian workforce jobs
Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

ILO unemployment
The International Labour Organization (ILO) measure of unemployment assesses the number of jobless people who want to work, are available to work and are actively seeking employment.

Residence-based employment
Employment measures the number of people in work rather than the total number of jobs (as people may have more than one job). It consists of employees, self-employed as well as unpaid family workers and those on government supported training and employment programmes. The measure included here is residence-based.

Gross domestic product (GDP)
A measure of the total economic activity in the economy.

Gross value added (GVA)
Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership
Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Bus ridership
Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2016/17 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2016.

Acronyms

BCC	British Chamber of Commerce
BRES	Business Register and Employment Survey
CAA	Civil Aviation Authority
CBI	Confederation of British Industry
CLG	Communities and Local Government
GDP	Gross domestic product
GVA	Gross value added
ILO	International Labour Organisation
IMF	International Monetary Fund
LCCI	London Chamber of Commerce and Industry
LET	London's Economy Today
MPC	Monetary Policy Committee
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
PWC	PricewaterhouseCoopers
RICS	Royal Institution of Chartered Surveyors

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